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FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC PRIORITY 0096  
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000838

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E.O. 12958: DECL: 03/07/2017  
TAGS: [EAID](#) [ECON](#) [ENRG](#) [IZ](#)  
SUBJECT: UPDATE ON BASRAH CHILDRENS HOSPITAL

Classified By: ZALMAY KHALILZAD, PER REASONS 1.4 (b,d).

11. (U) This is an action requested message, action requested in paragraph 5.

12. (C) Summary: IRMO has worked closely with GRD over the past two months to assure that the donation of Spain through UNDP could be utilized as quickly as possible on the project. UN required UNDP to treat funds as a new UNDP project, subject to all regular contracting requirements. Process of project approval has taken a full two months; only this week is UNDP expected have contracting authority for the funds. UNDP standard contract process, or waivers from same, is expected to take additional 3-6 months, before work can commence. In light of contract option deadlines already missed due to these delays, critical path items which must be funded in short term, and new cost of coordinating UNDP funded contractors on site, an additional \$9.98 million will be needed to keep the project on schedule. If the schedule can not be maintained there is a substantial risk of higher costs. Also, there is a risk that donors of specialized high value medical equipment may lose confidence, and withdraw support.

13. (C) In mid-July 2006, the Government of Spain offered a donation of USD\$22M, as part of the USD\$157 Basrah Children's Hospital project. At that time Spanish Deputy Foreign Minister told Embassy Madrid that he was "not currently aware of any problems with transferring funds in time to reach Embassy Baghdad by September 1." Later follow-up with Spain resulted in the GOS saying that it hoped to reprogram funds by the end of the year. On October 20, 2006 the Department instructed Embassy Madrid to follow up with the GOS and noted that the funds should be transferred to the DOS gift account. Later the government of Spain instructed USG to obtain the funds from its share of the UNDP account, which is part of the UN trust fund for Iraq, IRFFI. UNDP initially requested the funds be released as a single pass-through payment to the State Department in December 2006. Such a payment would have allowed BCH contracts to be processed on schedule, and option deadlines to be met. The initial UNDP effort was turned down by the UN Country Team. In late December, Embassy learned definitively that the UNDP was required to make a project proposal for the funds, as if the BCH project were a new project. Within a week of learning of this requirement, IRMO and GRD mobilized a team that traveled to UNDP Amman to provide all information needed for project approval. This process required a substantial application, approval and review process, during which IRMO and GRD participated almost daily to assist and expedite the process. UNDP Amman reports that the process should be completed by the UN in the coming days, after a two day non-objection period at UN New York and the internal procedures to transfer the funds to the UNDP Iraq account. To apply funds to the project, UNDP must either follow its own bidding and contracting process, or

meet strict waiver requirements to award bids to existing GRD contractors.

14. (C) Now that the extent of UNDP funding has been clarified, the impact on USG funded efforts can be more fully specified. Work that is on the critical path over the next 4-6 months may not be contracted quickly enough through the UNDP process to avoid delays to the project, which would add additional costs and negatively affect medical equipment donor confidence. Options for work with existing contractors at fixed prices have been missed, resulting cost increases to the work for those options. Therefore, IRMO and GRD recommend an additional USD\$8.98 million to cover critical path items, of which USD\$2 million is attributable to past delays. Finally, bringing new UNDP-selected contractors on site who are not subcontractors to the prime contractor will impose \$1 million in additional construction management costs. Below is an itemized list of these costs:

Current construction gap/change order items (additional, delay-related cost):

Electrical and Mechanical Support High-Value, Donated Medical Equipment  
\$300K

Residence Building  
- critical path for medical integration timeline and tie-in to the main facility  
\$730K

Exterior Stone Cladding  
- critical path for weather tightening around windows and door frames-2-month lead time on materials  
\$930K

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Utility Trench  
- critical path to meet testing and commissioning milestones of the plant room-also necessary to tie in to current rough work  
\$120K

Off-site Utilities  
- critical path to meet testing and commissioning milestones of the plant room-also necessary to tie in to current rough work  
\$2,500K

Final 10% of Electrical/Mechanical Work  
- critical path to meet testing/commissioning milestones-up to 3-month lead time on some materials  
\$1,540K

Rubber Flooring  
- critical path for medical equipment integration-3-month lead time for materials  
\$660K

Install Bed Head Units  
- critical path for medical equipment integration-3-month lead time for materials  
\$50K

Conveying Equipment/Hospital Kitchen/Hospital Laundry Equipment  
- critical path to meet installation, testing, commissioning milestones  
\$390K

Medical Logistics Warehouse  
- critical path to meet timeline for high-value equipment  
\$1,100K

Oxygen Generation Plant

- critical path to meet acquisition, testing, and commissioning milestone  
\$350K

Steam Autoclave Facility

- critical path to meet acquisition, testing, and commissioning milestone \$310K

On-site construction coordinator/general contractor

- The likelihood of awarding all remaining work to the Prime Contractor has decreased significantly. The current Prime Contractor's will require additional contract capacity to coordinate work between multiple contractors on site-whether contracted by USG or UNDP \$1,000K

TOTAL \$9,980K

15. (C) Action Requested: IRMO and GRD believe that some costs can be covered by expired funds, but that most will need to be covered by re-obligating up to \$9.98 million from other de-obligated funds. Mission requests the support of NEA/I and F for this proposed reobligation of funds and use of expired funds, in coordination with U.S. Army Corps of Engineers. Should UNDP award projects more promptly than anticipated, USG funds will remain in reserve for the BCH project. Mission and GRD recognize that implementing this recommendation will require full cooperation with likely inquiries from relevant Congressional committees.

16. (C) Lessons Learned: Donor funding requires close attention to original commitment terms, and constant follow-up to avoid delays in time sensitive projects. While IRMO and GRD staff worked daily for over two months to create a partner relationship with the UNDP-Iraq, legal and structural impediments made faster utilization of funds designated by GoS impossible. There are no remaining outstanding donor funds that might cause future problems for this project.

KHALILZAD